

**MINUTES OF THE  
WORKFORCE SERVICES & COMMUNITY  
& ECONOMIC DEVELOPMENT INTERIM COMMITTEE**

Wednesday, September 18, 2002 – 9:00 a.m. – Room 223 State Capitol

**Members Present:**

Sen. Beverly A. Evans, Senate Chair  
Rep. Richard M. Siddoway, House Chair  
Sen. Scott Jenkins  
Sen. Paula Julander  
Rep. Jeff Alexander  
Rep. Sheryl L. Allen  
Rep. Cindy Beshear  
Rep. Afton Bradshaw  
Rep. Carl Duckworth  
Rep. Brent Goodfellow  
Rep. David Litvack  
Rep. Merlynn T. Newbold  
Rep. J. Morgan Philpot  
Rep. Carl R. Saunders  
Rep. Peggy Wallace  
Rep. Bradley A. Winn

**Members Absent:**

President Al Mansell  
Sen. Steve Poulton  
Speaker Martin R. Stephens

**Staff Present:**

Ms. Jami Momberger, Research Analyst  
Mr. James L. Wilson, Associate General Counsel  
Ms. Jennifer Markham, Legislative Secretary

**Note:** A list of others present and a copy of materials can be found at <http://www.image.le.state.ut.us/imaging/history.asp> or by contacting the committee secretary, Jennifer Markham, at 538-1032.

**1. Committee Business**

Chair Siddoway called the meeting to order at 9:11 a.m.

**MOTION:** Sen. Jenkins moved to approve the minutes of June 19, 2002. The motion passed unanimously, with Sen. Evans, Rep. Alexander, Rep. Allen, Rep. Bradshaw, Rep. Duckworth, and Rep. Litvack absent for the vote.

**2. TANF Reauthorization - Update**

Ms. Sarah Brenna, Legislative Liaison, Department of Workforce Services, provided an update on the TANF Reauthorization, Child Care and Development Block Grant Amendments Act, and Unemployment Insurance Advisory Committee meeting. She distributed a copy of her presentation, "Reauthorization Update."

Committee discussion followed.

### **3. Tourism Update**

Mr. Dean Reeder, Director, Utah Travel Council, summarized tourism efforts. He distributed "Report on Tourism Coordination," "Appendix to Interim Committee Report," "Utah Travel Update," and "Memo Re: Drought and Wildfire Impacts on Utah Tourism."

**MOTION:** Rep. Allen moved to include data gathering processes in draft legislation to ascertain the effectiveness of promoting in-state tourism compared to attracting out-of-state tourists. The motion passed unanimously, with Sen. Evans absent for the vote.

Committee discussion followed.

### **4. High Tech Development: Contingent Tax Credit**

#### **A. Staff Overview**

Ms. Momberger explained venture capital and contingent tax credits and distributed "Contingent Tax Credit for Venture Capital Funds."

#### **B. Industry Panel**

Mr. Todd Stevens, Managing Director, Wasatch Venture Fund, provided an overview of the venture capital fund concept and the reason it is needed. His presentation "Increasing Early Stage Capital to Utah High Tech Businesses" was included in the mailing packet.

Ms. Nicole Toomey-Davis, Co-founder and former Chief Executive Officer, DoBox, Inc., described her experience with the start-up of DoBox, and the difficulties she faced when she was searching for funding from out-of-state venture capital firms. She detailed the financial impact to the State as a result of the sale of DoBox. She distributed "Support for Contingent Tax Credit Legislation to Improve Availability of Capital for Utah's Early Stage Technology Companies."

Mr. Rich Hanks, former Chief Executive Officer, Blue Step, explained the difficulty of raising funds for Blue Step. He stated that the company was five months from breaking even when it ran out of money and was unable to raise the funds. He emphasized that Utah is faced with a shortage of investors for start-up companies.

Mr. Jerry Oldroyd, Attorney, Ballard Spahr Andrews and Ingersoll, emphasized that Utah will lose technologies to other states without venture capital funds. He stated that Utah does a good job recruiting companies to locate in the state, but there is no venture capital coming into the state to support these programs and new start-up companies.

Mr. Oldroyd described the four parts of the proposed contingent tax credit program: (1) A state entity investment board that would establish the criteria to issue the tax credit through a certificate, establish the rate of return, and set the guidelines to redeem the certificate, (2) A capital investment company, a

private non-profit corporation, that will organize a Fund of funds, select a manager for the Fund of funds, establish contracts with existing venture capital firms, and receive and reinvest the proceeds, (3) A Fund of funds would make investments in existing firms to provide seed money and early capital with the goal to create a permanent source of venture capital and minimize the use of the contingent tax credit. He stated that the Fund of funds is a private, for-profit entity. He explained that the non-profit corporation would be the general partner. He stated that the Fund of funds sells equity interest to investors. He emphasized that the general partner would receive a fee for its services and any excess funds that exceed the amount payable to investors. Mr. Oldroyd stated that part of the excess funds could be returned to the State's general budget, reinvested in the Fund of funds, or used for future draws on the contingent tax, and (4) The certificate, which is a contract between the state and the investor, specifies the maturity date and is redeemable and transferrable. The redemption amount is the difference between the scheduled return and the yield of the fund. He emphasized that Oklahoma, a state that has used the program for several years, has never had an investor claim a tax credit because the yields have been greater than scheduled returns. He stated that the contingent tax credit has the potential to be a gain for the State.

Committee discussion followed.

### **C. Department of Community and Economic Development**

Mr. Mark Renda, Associate Director, Utah Technology Alliance, explained the Fund of funds concept and emphasized that it creates stability. He outlined the four barriers to raising venture capital. Mr. Renda reviewed "Early Stage Investment Models" that was included in the mailing packet.

Mr. Rod Linton, Executive Director, Utah Technology Alliance, explained the role and activities of the Utah Technology Alliance. He described discussions the Utah Technology Alliance has had with managers of venture funds and managers of Fund of funds. He noted the advantages of a Fund of funds and stated that the existence of a Fund of funds with regional direction and focus is a measure of the maturity and stability of a region. He emphasized two key questions for determining the tax incentives: (1) whether the tax credit incites incremental investments from traditional investors from the current investment pool and (2) whether the incentive creates an opportunity for non-traditional investors to come into the venture community.

Committee discussion followed.

### **5. Adjourn**

**MOTION:** Rep. Saunders moved to adjourn the meeting at 11:36 a.m. The motion passed unanimously, with Rep. Alexander, Rep. Allen, Rep. Bradshaw, Rep. Philpot, and Rep. Winn absent for the vote.